

**TELECOMMUNICATIONS FACILITIES REVENUE BOND FUNDS
IOWA STATE UNIVERSITY OF SCIENCE AND TECHNOLOGY**

**INDEPENDENT AUDITOR'S REPORT
FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION**

JUNE 30, 2004

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Independent Auditor's Report

To the Members of the Board of Regents,
State of Iowa:

We have audited the accompanying balance sheet of the Telecommunications Facilities Revenue Bond Funds of Iowa State University of Science and Technology as of June 30, 2004, and the related statement of revenues, expenditures and changes in fund balances for the year then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and Chapter 11 of the Code of Iowa. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

As discussed in note 1, the financial statements present only the Telecommunications Facilities Revenue Bond Funds and do not purport to, and do not, present fairly the financial position of Iowa State University of Science and Technology as of June 30, 2004 and changes in its financial position for the year then ended in conformity with U.S. generally accepted accounting principles.

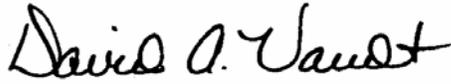
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Telecommunications Facilities Revenue Bond Funds of Iowa State University of Science and Technology as of June 30, 2004, and the revenues, expenditures and changes in fund balances for the year then ended in conformity with U.S. generally accepted accounting principles.

In connection with our audit, nothing came to our attention that caused us to believe Iowa State University of Science and Technology was not in compliance with the accounting requirements of the Board of Regents Resolution for the issuance of the Telecommunications Facilities Revenue Bonds. It should be noted, however, our audit was not directed primarily toward obtaining knowledge of such non-compliance.

Iowa State University of Science and Technology has not presented Management's Discussion and Analysis for the Telecommunications Facilities Revenue Bond Funds that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the financial statements.

This report, a public record by law, is intended solely for the information and use of the officials and employees of Iowa State University of Science and Technology, the members of the Board of Regents, citizens of the State of Iowa and other parties to whom Iowa State University of Science and Technology may report. This report is not intended to be and should not be used by anyone other than these specified parties.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental information included as Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in our audit of the financial statements and, accordingly, we express no opinion on it.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

September 30, 2004

Financial Statements

Telecommunications Facilities Revenue Bond Funds
Iowa State University of Science and Technology

Balance Sheet

June 30, 2004

	Unexpended Construction Fund	Renewals and Improvement Fund
Assets		
Cash and investments (note 2)	\$ 927,578	400,000
Cash with paying agents (note 3)	-	-
Accounts receivable	-	-
Interest receivable	102	-
Prepaid expense	-	-
Capital assets, net (note 4)	-	-
Total assets	\$ 927,680	400,000
Liabilities and Fund Balances		
Liabilities:		
Accounts payable	\$ -	72,311
Compensated absences payable	-	-
Accrued salaries and wages	-	-
Interest payable	-	-
Revenue bonds payable (note 3)	230,671	-
Total liabilities	230,671	72,311
Fund balances:		
Net investment in plant	-	-
Reserved for debt service	-	-
Unreserved, designated for specific purposes	697,009	327,689
Total fund balances	697,009	327,689
Total liabilities and fund balances	\$ 927,680	400,000

See notes to financial statements.

Plant Funds				
Replacements	Retirement of Indebtedness			
Operations Reserve	Sinking Fund	Reserve Fund	Investment in Plant	Total
8,702,345	-	784,134	-	10,814,057
-	874,221	-	-	874,221
87,436	-	-	-	87,436
114,237	172	4,406	-	118,917
18,904	-	-	-	18,904
-	-	-	14,306,553	14,306,553
8,922,922	874,393	788,540	14,306,553	26,220,088
42,842	-	-	-	115,153
165,544	-	-	-	165,544
3,621	-	-	-	3,621
-	74,221	-	-	74,221
-	800,000	761,500	1,637,829	3,430,000
212,007	874,221	761,500	1,637,829	3,788,539
-	-	-	12,668,724	12,668,724
-	172	27,040	-	27,212
8,710,915	-	-	-	9,735,613
8,710,915	172	27,040	12,668,724	22,431,549
8,922,922	874,393	788,540	14,306,553	26,220,088

Telecommunications Facilities Revenue Bond Funds
Iowa State University of Science and Technology

Statement of Revenues, Expenditures and Changes in Fund Balances

Year ended June 30, 2004

	Current Funds		Unexpended
	Revenue Fund	Operations and Maintenance Fund	Construction Fund
Revenues (expenditures):			
Operating revenues	\$ 7,525,337	-	-
Operating expenditures before depreciation	-	(4,744,066)	-
Operating income before depreciation	7,525,337	(4,744,066)	-
Depreciation	-	-	-
Net operating revenue	7,525,337	(4,744,066)	-
Other revenues (expenditures):			
Non-capitalized equipment	-	-	-
Administrative expenses	-	-	-
Investment income	35,475	-	1,443
Net decrease in fair value of investments	-	-	-
Interest on indebtedness	-	-	-
Excess (deficiency) of revenues over (under) expenditures	7,560,812	(4,744,066)	1,443
Other financing sources (uses):			
Additions to telecommunications infrastructure	-	-	(7,241)
Deletions of capital assets	-	-	-
Mandatory transfers	(1,348,442)	-	-
Non-mandatory transfers	(6,523,150)	4,744,066	-
Transfers to/from other University funds	310,780	-	-
Transfer of revenue bonds payable	-	-	7,241
Total other financing sources (uses)	(7,560,812)	4,744,066	-
Net increase (decrease) for the year	-	-	1,443
Fund balances beginning of year	-	-	695,566
Fund balances end of year	\$ -	-	697,009

See notes to financial statements.

Plant Funds							
Renewals and Replacements		Retirement of Indebtedness					
Improvement Fund	Operations Reserve	Sinking Fund	Reserve Fund	Arbitrage Reserve Fund	Investment in Plant		Total
-	-	-	-	-	-	-	7,525,337
-	-	-	-	-	-	-	(4,744,066)
-	-	-	-	-	-	-	2,781,271
-	-	-	-	-	(2,643,692)	-	(2,643,692)
-	-	-	-	-	(2,643,692)	-	137,579
(62,858)	-	-	-	-	-	-	(62,858)
-	-	-	-	(750)	-	-	(750)
-	266,160	1,002	32,561	-	-	-	336,641
-	(225,390)	-	(34,351)	-	-	-	(259,741)
-	-	(148,442)	-	-	-	-	(148,442)
(62,858)	40,770	(147,440)	(1,790)	(750)	(2,643,692)	-	2,429
(3,152,150)	-	-	-	-	3,159,391	-	-
-	-	-	-	-	(134,985)	-	(134,985)
400,000	-	948,442	-	-	-	-	-
3,014,682	(1,202,752)	(1,035)	(32,561)	750	-	-	-
-	-	-	-	-	90,626	-	401,406
-	-	(800,000)	-	-	792,759	-	-
262,532	(1,202,752)	147,407	(32,561)	750	3,907,791	-	266,421
199,674	(1,161,982)	(33)	(34,351)	-	1,264,099	-	268,850
128,015	9,872,897	205	61,391	-	11,404,625	-	22,162,699
327,689	8,710,915	172	27,040	-	12,668,724	-	22,431,549

Telecommunications Facilities Revenue Bond Funds
Iowa State University of Science and Technology

Notes to Financial Statements

June 30, 2004

(1) Summary of Significant Accounting Policies

Accounting Entity and Basis of Accounting

The Telecommunications Facilities Revenue Bond Funds were created by resolution of the Board of Regents, State of Iowa which authorized the issuance of revenue bonds to defray the additional costs of constructing, improving and equipping the telecommunications system of Iowa State University of Science and Technology. The revenue bonds are issued on behalf of the University.

The financial statements of the Telecommunications Facilities Revenue Bond Funds of Iowa State University of Science and Technology (University) include only the financial position and operating activities of the Telecommunications Facilities Revenue Bond Funds. These fund financial statements present only a portion of the funds of the University.

The financial statements have been prepared on the accrual basis.

Fund Accounting

In order to ensure observance of limitations and restrictions placed on the use of resources available to the University, the accounts of the University are maintained in accordance with the principles of "fund accounting" under which resources for various projects are classified for accounting and reporting purposes into funds that are in accordance with activities or objectives specified.

The University's accounts and transactions include those related to the Telecommunications Facilities Revenue Bonds issued by the University. These fund financial statements reflect only those accounts and transactions related to these bonds. These accounts and transactions are included as a portion of the University's Plant Funds. Plant Funds are used to account for the transactions relating to investment in University properties. Plant Funds include the following funds: (1) Unexpended, (2) Renewals and Replacements, (3) Retirement of Indebtedness and (4) Investment in Plant. Unexpended, including the Construction Fund established by the bond resolution, is comprised of amounts allocated or designated for constructing, acquiring and improving the Telecommunications Facilities. Renewals and Replacements, including the Improvement and the Operations Reserve Funds established by the bond resolution, is comprised of amounts allocated or designated for repairs and improvements for the Telecommunications Facilities. Retirement of Indebtedness, including Sinking, Reserve and Arbitrage Reserve Funds established by the bond resolution, is comprised of amounts to provide for payment of principal and interest. Investment in Plant is comprised of amounts representing the total of buildings, telecommunications system infrastructure, equipment, all net of accumulated depreciation and the related liabilities.

The Current Funds, including the Revenue and the Operations and Maintenance Funds established by the bond resolution, are classified as a University Auxiliary Enterprise to account for transactions of substantially self-supporting activities that primarily perform a service to students.

Revenue Fund

The Revenue Fund is used to account for all financial resources except those to be accounted for in another fund. In accordance with the provisions and terms of the bond resolution, the gross revenues of the Telecommunications Facilities shall be deposited as collected in this fund.

Operation and Maintenance Fund

The Operation and Maintenance Fund is used to pay expenses of operating the Telecommunications Facilities.

Construction Fund

The Construction Fund accounts for the receipts of the bond proceeds, together with such other funds as may be lawfully available for the purpose, to pay project construction costs as required by the bond resolution.

Improvement and Extension Fund (Improvement Fund)

The bond resolution provides that semi-annual installments will be credited to the Improvement Fund from the net rents, profits and income of the Telecommunications Facilities remaining after first making the required payments into the Sinking and Reserve Funds, in the sum of \$200,000 or a greater amount as determined by the Board of Regents. All monies credited to the Improvement Fund are used to pay any extraordinary cost of maintaining the Telecommunications Facilities and to pay the costs of constructing necessary repairs, improvements, and extensions thereto. At the end of each fiscal year, any excess cash balance above \$400,000 on deposit in the Improvement Fund shall be transferred to the Operations Reserve Fund. Transfers will made to fund deficits in the following months.

Operations Reserve Fund

The bond resolution provides that all remaining net rents, profits and income of the Telecommunications Facilities are deposited to the Operations Reserve Fund. Monies deposited to the Operations Reserve Fund are used and applied to the payment of necessary operating and maintenance expenses whenever, for any reason, no other funds are available for such purpose, transferred and credited to the Sinking Fund to prevent or remedy a default in the payment of principal and interest on the outstanding bonds and credited to the Debt Service Reserve Fund or Improvement Fund whenever any deficiency may exist. Until so needed, monies deposited to the Operations Reserve Fund may be used to: (1) purchase bonds prior to maturity, (2) pay costs of constructing, acquiring and improving the Telecommunications Facilities or extraordinary costs of operating, repairing or maintaining the Telecommunications Facilities, or (3) pay principal of and interest on any other obligations which by their terms shall be payable from the revenues of the Telecommunications Facilities, but subordinate to the bonds or bonds ranking on a parity therewith, and which have been issued for the purpose of extensions and improvements to the Facilities or to retire the bonds or bonds ranking on parity therewith in advance of maturity or to pay for extraordinary repairs and replacements to the Facilities.

Bond Sinking Fund (Sinking Fund)

The bond resolution provides that equal semi-annual installments shall be set aside from the net rents, profits and income derived from the Facilities to the Sinking Fund sufficient for the principal and interest payment that will become due and payable on and prior to the next succeeding January 1 or July 1. Any excess amount shall be transferred to the Debt Service Reserve Fund or to the Operations Reserve Fund if the amount on deposit in the Debt Service Reserve Fund is equal to or greater than the Debt Service Reserve Requirement.

Debt Service Reserve Fund (Reserve Fund)

The bond resolution establishes a Debt Service Reserve Fund as additional security for the bonds. The Debt Service Reserve Fund will be funded in an amount equal to the lesser of (1) ten percent of the stated principal amount of the bonds; (2) the maximum annual payments of principal and interest on the bonds or (3) 125% of the average annual principal and interest requirements on the Bonds (the "Debt Service Reserve Requirement"). The Debt Service Reserve Fund was funded at Bond closing in the amount of \$761,500. All moneys credited to the Debt Service Reserve Fund shall be transferred to the Bond Sinking Fund and used for the payment of principal and interest on the Bonds whenever for any reason the funds on deposit in the Bond Sinking Fund are insufficient to pay such principal and interest when due. All amounts in excess of the Debt Service Reserve Requirement shall be transferred to the Operations Reserve Fund.

Arbitrage Reserve Fund

Moneys credited to the Arbitrage Reserve Fund shall be used for the payment of arbitrage rebates and related administrative expenses. Transfers will be made to fund any deficits in the following months.

Cash and Investments

The University deposits the cash of most funds in commingled bank accounts and makes disbursements from the combined cash balances. An individual fund's cash balance represents that fund's cumulative deposits to and disbursements from the University's bank accounts.

Investments are reported at fair value.

Capital Assets

Capital assets are defined by the University as assets with an initial individual cost of more than \$5,000 for equipment and \$50,000 for infrastructure. Such assets are recorded at historical cost if purchased or constructed.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Outlays for capital assets are capitalized as projects are constructed. During the year ended June 30, 2004, no interest costs were capitalized.

Depreciation is computed using the straight-line method over the following estimated useful lives:

<u>Asset</u>	<u>Years</u>
Equipment	5-12
Infrastructure	10

(2) Cash and Investments

Cash in excess of immediate needs for debt service is primarily invested in U.S. government securities. The University's investments are categorized to give an indication of the level of risk assumed by the University at year end. The University's investments in U.S. government securities are Category 2 investments, which means the investments are uninsured and unregistered, with securities held by the counterparty's trust department or agent in the University's name. Cash and investments at June 30, 2004 are as follows:

	<u>Fair Value</u>
Cash and cash equivalents	\$ 3,033,729
U. S. government securities	<u>7,780,328</u>
Total	<u>\$10,814,057</u>

(3) Revenue Bonds Payable

The bonds, issued on August 1, 1997 for \$7,615,000, were to be used to construct, improve and equip the Telecommunications Facilities for the University. The bonds bear interest at rates ranging from 4.1% to 4.4% per year, payable semi-annually on January 1 and July 1. The bonds mature on July 1, in annual amounts as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	800,000	131,442	931,442
2006	840,000	96,383	936,383
2007	875,000	59,291	934,291
2008	915,000	20,130	935,130
Total	<u>\$ 3,430,000</u>	<u>307,246</u>	<u>3,737,246</u>

Under the provisions of the bond resolution, these bonds, and additional parity bonds that may be subsequently issued, will be retired solely from the net rents, profits and income from the Telecommunications Facilities of the University.

In accordance with the provisions of the bond resolution, all principal and interest maturing July 1 of each year shall be considered to be obligations of the then immediately preceding fiscal year. Therefore, such debt is reflected in the Sinking Fund.

At June 30, 2004, cash with paying agents of \$874,221 was on deposit in the Agency Fund of the University for the purpose of paying current obligations of bond principal and interest.

(4) Capital Assets

The following is a summary of capital assets activity for the Investment in Plant Fund for Telecommunications Facilities assets for the year ended June 30, 2004:

	Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004
Equipment	\$ 9,149,712	90,626	(338,081)	8,902,257
Telecommunications system infrastructure	31,402,061	3,159,391	-	34,561,452
Total capital assets	40,551,773	3,250,017	(338,081)	43,463,709
Less accumulated depreciation:				
Equipment	(7,019,060)	(452,083)	203,096	(7,268,047)
Telecommunications system infrastructure	(19,697,500)	(2,191,609)	-	(21,889,109)
Total accumulated depreciation	(26,716,560)	(2,643,692)	203,096	(29,157,156)
Capital assets, net	\$ 13,835,213	606,325	(134,985)	14,306,553

(5) Debt Service Coverage

Telecommunications Facilities Revenue Bond Fund principal and interest payments totaling \$948,442 due January 1 and July 1, 2004 require debt service coverage of a minimum of 110%, or \$1,043,286. Telecommunications Facilities operating income before depreciation of \$2,781,271 and investment income of \$336,641 provided debt service coverage of \$3,117,912, or 329% of the principal and interest due for the year ended June 30, 2004.

Supplemental Information

Schedule 1

Telecommunications Facilities Revenue Bond Funds
Iowa State University of Science and Technology

Insurance Coverage
(Unaudited)

June 30, 2004

Insurer

Employers Mutual Casualty
Company (EMC)

Description of Coverage

Electronic Data Processing coverage with a \$5,000 deductible for each single loss.

Amount of Coverage

\$ 10,559,133

Policy Number

1C50891

Terms of Policy

July 1, 2003 to July 1, 2004

See accompanying independent auditor's report.

Telecommunications Facilities Revenue Bond Funds
Iowa State University of Science and Technology

Student Enrollment
(Unaudited)

Year ended June 30, 2004

Enrollment at Iowa State University of Science and Technology for the year ended June 30, 2004 was as follows:

Summer Semester, 2003	9,966
Fall Semester, 2003	27,380
Spring Semester, 2004	25,282

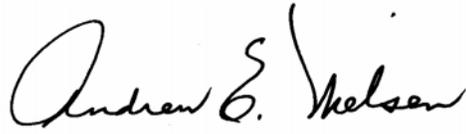
See accompanying independent auditor's report.

Telecommunications Facilities Revenue Bond Funds
Iowa State University of Science and Technology

Staff

This audit was performed by:

Kay F. Dunn, CPA, Manager
Sarah D. McFadden, CPA, Staff Auditor
Curtis J. Schroeder, Assistant Auditor
Trisha M. Dirks, Assistant Auditor

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive style with a large initial 'A' and a distinct 'E'.

Andrew E. Nielsen, CPA
Deputy Auditor of State